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<b>DOCKET</b> 00-REN-1194
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November 21, 2005

California Energy Commission  
Docket Office  
**Attn: Docket No. 00-REN-1194**  
1516 Ninth Street  
Sacramento, CA 95814-5512

Dear Commission:

Re: Southern California Edison's Comments on the Staff Draft Report for the  
2006 Renewable Energy Investment Plan

Southern California Edison (SCE) would like to take this opportunity to provide the following comments on the November 7, 2005 Staff Draft Report for the 2006 Renewable Energy Investment Plan. These comments are focused on the Staff Report presented at the California Energy Commission (CEC) hearing held November 14, 2005, and do not necessarily address the change in direction Commissioner Geesman indicated would be forthcoming, which directs the CEC and CPUC to conduct a joint review of the renewable procurement processes and approaches. SCE supports the approach outlined by Commissioner Geesman.

The Staff Draft Report on the 2006 Renewable Energy Investment Plan (Report) proposes sweeping changes to the structure of the state's renewable portfolio standard program. Under existing law, IOUs are to conduct periodic solicitations governed by least cost/best fit ranking principles. To the extent that selected bids exceed a market price referent (MPR) established by the Public Utilities Commission (PUC) from time to time, then the winning bidder can seek funding for amounts exceeding the MPR from the CEC.

Considerable effort has been expended both by the PUC and stakeholders in developing the basic elements of the state's RPS program. Although ongoing refinements are inevitable and appropriate, all of the key elements of the program envisioned by SB 1078 are now in place. The state's three major IOUs have recently commenced solicitations for eligible renewable resources pursuant to the existing statutory guidelines, as implemented by the PUC. At this juncture, there is no reason to believe that existing law is failing to provide the necessary mechanisms and incentives for the state to achieve the overall objectives of the RPS program.

The Report, which ostensibly is intended to establish the allocation of funds collected pursuant to Senate Bill 1194 (Sher) and Assembly Bill 995 (Wright) during the years 2007-2012, proposes wholesale structural changes to existing law. For example, the Report recommends completely scrapping the MPR. Additionally, the Report proposes a reverse auction as the means to award separate energy payments (SEPs) to eligible renewable resources. Neither of these recommendations is reasonable or appropriate in the context of the Report.

The MPR is a critical component of existing law, which serves the dual function of ensuring that ratepayers do not pay directly through utility contracts for eligible renewable resources a rate that exceeds market rates, and also of calibrating the overall program costs of the RPS by triggering the use and potential depletion of SEP funds. Elimination of the MPR would remove important ratepayers' safeguards. In any event, doing so would clearly require legislation.

05939

The notion of a reverse auction for the award of SEP funds is also flawed. Under a reverse auction, developers would bid for SEP funds without any knowledge of whether, or if so, under what terms, they would ultimately be able to obtain a contract. This was the result under SB-90 as developers locked SEP funds, but did not proceed with projects because they were unable to obtain financing. Indeed, as Table 3 in the Report shows, only 37% of the renewable capacity that received SEPs through the reverse auction process actually materialized over the three years of the program. In contrast, Table 4 shows up to 3,033 MW that presently have a contract and, hence, a much higher likelihood of getting the necessary financing to move forward.

Although there is certainly room for refinement of the RPS program, the better approach, adopted in the 2005 IEPR, is to defer an assessment of the necessary improvements until the current IOU solicitations have been concluded. This approach is consistent with Commissioner Geesman's comments at the CEC's public meeting on November 7, 2005, recommending a joint review by the PUC and the CEC of the processes used to implement various elements of the RPS. The primary objective of this joint review would be to scrutinize the current solicitations and their results in order to establish an informed basis for specific recommendations to change existing law to facilitate achieving the state's RPS objectives.

Programs used to subsidize the state's ambitious renewable energy goals need to be dynamic and allow flexibility to adjust to changes in the market. The CEC must be careful not to commit to funding less cost effective programs in dereliction of the most cost-effective renewable resources. The results of interim solicitations and currently elevated prices for natural gas may suggest that less funding is needed for conventional renewable resources, as opposed to emerging resources such as PV solar. However, natural gas price forecasts are imperfect, and the cost of bringing conventional resources on line is likely to increase after the most cost-effective resources are selected in early auctions. Whatever funding decisions are made at this juncture, the CEC needs to retain the flexibility to reallocate dollars out of higher cost PV programs to support the relatively higher value provided by traditional types of eligible renewable resources that participate in the RPS program. Furthermore, to the extent that the CEC intends to earmark additional funding for PV solar programs, the CEC should ensure that incentives are based on performance rather than in installation size (energy vs. capacity) to ensure that these subsidy dollars provide the greatest ratepayer value over time.

Undoubtedly, the Report addresses important issues that should be further examined. However, these issues and programs should be included in a joint CEC/CPUC review after the present solicitation results are determined.

If you have any questions regarding these comments, please call me at (916) 441-2369.

Sincerely,

Manual Alvarez

cc: Commissioner John L. Geesman  
Commissioner Jackalyne Pfannenstiel  
Chairman Joseph Desmond  
Commissioner James Boyd  
Commissioner Arthur H. Rosenfeld

**From:** <Tambre.Doyle@SCE.com>  
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**Date:** 11/22/2005 7:03:49 AM  
**Subject:** Docket #00-REN-1194 - SCE's Comments on 2006 Renewable Energy Investment Plan

To be filed with the Docket Office under 00-REN-1194, attached please find  
SCE's letter dated 11/21/05 transmitting: SCE's Comments on the Staff  
Draft Report for the 2006 Renewable Energy Investment Plan.

(See attached file: 112105SCEsRenewableEnergyComments.doc)

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